



**THE INSTITUTE OF
Company Secretaries of India**
भारतीय कम्पनी सचिव संस्थान
IN PURSUIT OF PROFESSIONAL EXCELLENCE
Statutory body under an Act of Parliament
(Under the jurisdiction of Ministry of Corporate Affairs)

#

SUPPLEMENT EXECUTIVE PROGRAMME

CORPORATE ACCOUNTING & FINANCIAL MANAGEMENT

(This supplement covers Amendments/ Developments for June 2025 Exam. To be read with the CAFM study material new Syllabus updated up to November, 2023.)

(Part I – Corporate Accounting)

GROUP 1

PAPER 4

Disclaimer: This document has been prepared purely for academic purposes only and it does not necessarily reflect the views of ICSI. Any person wishing to act on the basis of this document should do so only after cross checking with the original source.

LESSON 3- ACCOUNTING STANDARDS

Ind AS 116	Leases	<p>The objective of this Ind AS is to set out the principles for recognition, measurement, presentation of disclosure of leases so that the lessees and lessors provide the relevant information in a manner that faithfully represent those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.</p> <p>In additions to normal leases, the Standard also covers lease liability in sale and lease back transactions.</p> <p>To apply this standard, an entity shall consider the terms and conditions of contracts and all relevant facts and circumstances. An entity shall apply this Standard consistently to contracts with similar characteristics and in similar circumstances.</p> <p>A lease is a contract, or part of a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.</p>
Ind AS 117	Insurance Contracts	<p>Ind AS 117 establishes principles for the recognition, measurement, presentation and disclosure of Insurance Contracts within the scope of the standard. The objective of Ind AS 117 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.</p> <p>The Ministry of Corporate Affairs (MCA) has issued Ind AS 117, Insurance Contracts on 12 August 2024.</p> <p>Ind AS 117 applies to all companies i.e it applies to 'insurance contracts' , regardless of the issuer, and therefore all companies are covered and not just insurance companies registered with the insurance Regulatory and Development Authority of India (IRDAI).</p> <p>Indian Accounting Standards (Ind AS) currently do not apply to entities registered with IRDAI as insurance companies. These companies apply accounting standards notified under the Companies Act,2013 read with relevant guidelines issued by the IRDAI.</p> <p>The MCA, vide its notification dated 28 September 2024, has clarified that an insurer or insurance company may provide its financial statement as per Ind AS 104 for the purposes of consolidated financial statements of its parent or investor or venture till the IRDAI has notified Ind AS 117.</p> <p>An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified future event (the insured event) adversely affects the policyholder.</p>

LESSON 4

ACCOUNTING FOR SHARE CAPITAL

Journal Entries in case of Buy-back of Securities

1. On 31st March, 2024, following was the balance sheet of Citadel Industries Ltd:

<i>Liabilities</i>	₹ (In lakhs)	<i>Assets</i>	₹ (In lakhs)
Equity share capital (Fully paid-up shares of Rs.10 each)	2,400	Machinery	3,600
Securities premium	350	Furniture	452
General reserve	930	Investments	148
Profit and loss account	340	Stock	1,200
12% Debentures	1,500	Debtors	520
Sundry creditors	750	Cash at bank	740
Sundry provisions	390		
	<u>6,660</u>		<u>6,660</u>

On 1st April, 2024, the company announced the buy-back of 25% of its equity shares at ₹15 per share. For the purpose, it sold all its investments for ₹ 150 lakh and Issued 2,00,000 14% preference shares of ₹ 100 each at par, the entire amount being payable with application.

The issue was fully subscribed. The company achieved the target of the buy-back. Later, the company issued one fully paid up equity share of ₹ 10 by way of bonus share for every four equity shares held by the equity shareholders.

Show the Journal entries for all the transaction including cash transaction.

Particulars	L.F	Debit Amount	Credit Amount
Bank A/c Dr To Investment A/c To Profit and Loss A/c (Being Sale of Investment at Profit)		1,50,00,000	1,48,00,000 2,00,000
Bank A/c Dr To 14% Preference Share Capital A/c (Being issue of 14% Preference Share Capital)		2,00,00,000	2,00,00,000

Equity Share Capital A/c	Dr	6,00,00,000	
Security Premium A/c	Dr	3,00,00,000	
To Equity Shareholders A/c			9,00,00,000
(Being Buyback of Equity Shares)			
Equity Shareholders A/c	Dr	9,00,00,000	
To Bank A/c			9,00,00,000
(Being payment to Equity Shareholders)			
General Reserves A/c	Dr	4,00,00,000	
To Capital Redemption Reserve A/c			4,00,00,000
(Being transfer to Capital Redemption Reserve)			
Securities Premium A/c	Dr	50,00,000	
General Reserves A/c	Dr	3,30,00,000	
Profit & Loss A/c	Dr	70,00,000	
To Equity Share Capital A/c			4,50,00,000
(Being Issue of Bonus Shares)			

LESSON 5

ACCOUNTING FOR DEBENTURES

REDEMPTION OF DEBENTURES

Section 71 (1) of the Companies Act, 2013	Section 71 (2) of the Companies Act, 2013	Section 71 (4) of the Companies Act, 2013
Company may issue debentures with an option to convert such debentures into shares, either wholly or partly at the time of redemption. Provided that the issue of debentures with an option to convert such debentures into shares, wholly or partly, should be approved by a special resolution passed at a duly convened general meeting.	No company can issue any debentures which carry any voting rights.	Where debentures are issued by a company, the company should create a debenture redemption reserve account out of the profits of the company available for payment of dividend and the amount credited to such account should not be utilized by the company for any purpose other than the redemption of debentures.

CREATION OF DEBENTURE REDEMPTION RESERVE

Section 71(4) of the Companies Act, 2013, read with Rule 18(7) of the Companies (Share Capital And Debentures) Rules, 2014, requires every company issuing redeemable non-convertible debentures to create a Debenture Redemption Reserve (DRR) account of at least a certain percentage of the total outstanding value of the issued debentures (described below), out of the profits of the company available for the payment of dividend and the amount credited to such account shall only be used for the redemption of debentures. This effort is to protect the debenture holders from the possibility of the company defaulting on repayments, as DRR ensures that enough funds are available to meet the obligations of the debenture holders.

Let us assume that an unlisted company issues ₹10 crore worth of debentures in January 2022 with a maturity date of January 2032. In this case, the company has to create ₹1 crore (representing 10% of the total outstanding of the issued debentures, i.e., ₹10 crore) as DRR before the maturity date.

Adequacy of Debenture Redemption Reserve (DRR)

The Debenture Redemption Reserve shall be created out of the profits of the company available for payment of dividend; the limits with respect to adequacy of DRR and investment or deposits, as the case may be, shall be as under:

Sr. No	Debentures issued by	Adequacy of Debenture Redemption Reserve (DRR)
1	All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures	No DRR is required
2	Other Financial Institutions (FIs) within the meaning of clause (72) of section 2 of the Companies Act, 2013	DRR will be as applicable to NBFCs registered with RBI (as per (3) below)
3	For listed companies (other than AIFIs and Banking Companies as specified in Sr. No. 1 above):	
a.	All listed NBFCs (registered with RBI under section 45-IA of the RBI Act,) and listed HFCs (Housing Finance Companies registered with National Housing Bank) for both public as well as privately placed debentures	No DRR is required
b.	Other listed companies for both public as well as privately placed debentures	No DRR is required
4	For unlisted companies (other than AIFIs and Banking Companies as specified in Sr. No. 1 above)	
a.	All unlisted NBFCs (registered with RBI under section 45-IA of the RBI (Amendment) Act, 1997) and unlisted HFCs (Housing Finance Companies registered with National Housing Bank) for privately placed debentures	No DRR is required
b.	Other unlisted companies	DRR shall be 10% of the value of the outstanding debentures issued

Investment of Debenture Redemption Reserve (DRR) Amount

As per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, following companies:

- ⌘, All listed NBFCs
- ⌘, All listed HFCs
- ⌘, All other listed companies (other than AIFIs, Banking Companies and Other FIs); and
- ⌘, All unlisted companies which are not NBFCs and HFCs

shall on or before the 30th day of April in each year, in respect of debentures issued, deposit or invest, as the case may be, a sum which should not be less than 15% of the amount of its debentures maturing during the year ending on the 31st day of March of next year, in any one or more of the following methods, namely:

- in deposits with any scheduled bank, free from charge or lien;
- in unencumbered securities of the Central Government or of any State Government;
- in unencumbered securities mentioned in clauses (a) to (d) and (ee) of Section 20 of the Indian Trusts Act, 1882;
- in unencumbered bonds issued by any other company which is notified under clause (f) of Section 20 of the Indian Trusts Act, 1882.

Important Point:

- The amount deposited or invested, as the case may be, above should not be utilised for any purpose other than for the redemption of debentures maturing during the year referred to above.

Provided that the amount remaining deposited or invested, as the case may be, shall not at any time fall below 15% of the amount of debentures maturing during the 31st day of March of that year.

- In case of partly convertible debentures, DRR shall be created in respect of non-convertible portion of debenture issue.
- The amount credited to DRR shall not be utilised by the company except for the purpose of redemption of debentures.
- It should be noted that appropriation to DRR can be made any time before redemption and Investments in specified securities as mentioned above can be done before 30th April for the debentures maturing that year, however, for the sake of simplicity and ease, it is advisable to make the appropriation and investment immediately after the debentures are allotted assuming that the company has sufficient amount of profits (issued if allotment date is not given in the question). Also, in some cases, the date of allotment could be missing, in such cases the appropriation and investments should be done on the first day of that year for which ledgers accounts are to be drafted.

Journal Entries				
Date	Particular	L.F.	Amount (Dr.)	Amount (Cr.)
	(a) For setting aside the fixed amount of profit for redemption Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c			
	(b) For investing the amount set aside for redemption Debenture Redemption Reserve Investment A/c Dr. To Bank A/c			
	(c) For receipt of interest on Debenture Redemption Reserve Investments Bank A/c Dr. To Interest on Debenture Redemption Reserve Investment A/c			
	(d) For transfer of interest on Debenture Redemption Reserve Investments (DRRI) Interest on Debenture Redemption Reserve Investment A/c Dr. To Profit and loss A/c*			
	At the time of redemption of debentures			
	(a) For encashment of Debenture Redemption Reserve Investments Bank A/c Dr. To Debenture Redemption Reserve Investment A/c			
	(b) For amount due to debenture holders on redemption Debentures A/c Dr.			

scheduled bank, free from any charge or lien Rs. 15,000 at interest 4% p.a. receivable on 31st December every year. Bank balance with the company is Rs. 90,000.

The Interest on debentures had been paid up to December 31, 2022.

On February 28, 2023, the investments were realised at par and the debentures were paid off at 10.1, together with accrued interest.

Write up the concerned ledger accounts (excluding bank transactions).

Solution:

6% Mortgage Debentures Account

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
Feb. 28, 2023	To Debenture-holders A/c		1,00,000	Jan. 1 2023	By Balance b/d		1,00,000

Debentures Redemption Reserve Investment Account

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
Jan. 1, 2023	To Balance b/d		15,000	Feb. 28, 2023	By Bank		15,000

Debenture Interest Account

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
Feb. 28, 2023	To Bank (10,000x 10 x 6% x 2/12)		1,000	Feb. 28, 2023	By Profit & Loss A/c		1,000

Bank A/c

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
Jan 01, 2023	To Balance b/d		90,000	Feb. 28, 2023	By Debenture-holders (10,000 x 10.1)		1,01,000

Feb 28, 2023	To Interest on Debentures Redemption Investments (15,000 $\times 4\% \times 2/12$)		1,00		By Debenture Interest A/c		1,000
	To Debentures Redemption Reserve investment A/c		15,000		By Balance c/d		3,100
			1,05,100				1,05,100

Debenture Redemption Reserve Account

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
Feb 28, 2023	To General Reserve- (note)		10,000	Jan.1, 2023	By Balance b/d		5,000
				Jan.1, 2023	By Profit & Loss (b/f)		5,000
			10,000				10,000

Note: Amount to be transferred to DRR before the redemption = Rs. 10,000 [i.e. 10% of (10,000 X 10)].

Question: 2

The following balances appeared in the books of Apple Ltd (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 1-4-2022:

- (i) 12 % Debentures Rs. 75,000
- (ii) Balance of DRR Rs. 25,000
- (iii) DRR Investment Rs. 11,250 represented by 10% 1,125 Secured Bonds of the Government of India of Rs. 10 each.

Annual contribution to the DRR was made on 31st March every year. On 31-3-2023, balance at bank was Rs. 75,000 before receipt of interest. The investment were realised at par for redemption of debentures at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended 31st March, 2023:

- (1) Debentures Account
- (2) DRR Account
- (3) DRR Investment Account

(4) *Bank Account*

(5) *Debenture Holders Account.*

Solution:

12% Debentures Account

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
Mar 31 2023	To Debenture-holders A/c		75,000	April 1 2022	By Balance b/d		75,000

10% Secured Bonds of Govt. (DRR Investment) A/c

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
Apr. 1, 2022	To Balance b/d		11250	Mar. 31, 2023	By Bank		11250

Bank A/c

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
Apr 01, 2022	To Balance b/d		75,000	Mar 31, 2023	By Debenture-holders		82500
Mar 31, 2023	To Interest on Debentures Redemption Investments (11250 x 10%)		1125		By Debenture Interest A/c		
	To Debentures Redemption Reserve investment A/c		11250		By Balance c/d		4875
			87375				87375

Debenture Redemption Reserve Account

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
Mar 31, 2023	To General Reserve- (note)		7500	Apr.1, 2022	By Balance b/d		2,500

				Apr 1, 2022	By Profit & Loss (b/f)		5,000
			7500				7,500

Note: Calculation of DRR before redemption = 10% of Rs. 75,000 = 7500

Available balance = 2500

DRR required = 7500 - 2500 = 5000.

Debenture Holder Account

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
Mar 31, 2023	To Bank A/c		82500	Apr.1, 2022	By 12% Debenture		75000
				Apr 1, 2022	By Premium on redemption of debentures (75000 X 10%)		7500
			82500				82500

Question: 3

ABC Ltd. has issued 1,0000, 12% convertible debentures Rs. 100 each redeemable after a period of five years at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 30% of their holdings into equity shares of Rs. 10 each at a price of Rs. 20 per share and balance in cash. Debenture holders amounting Rs. 2,00,000 opted to get their debentures converted into equity shares as per terms of the issue. You are required to calculate the number of shares issued and cash paid for redemption of Rs. 20,000 debenture holders.

Solution:

Particulars	No. of Debentures
Debenture holders opted for conversion (200000 /100)	2000
Option for conversion	30%
Number of debentures to be converted (30% of 2000)	600

Redemption value of 600 debentures at a premium of 5% $[600 \times (100+5)]$	63000
Equity shares of Rs. 10 each issued on conversion $[Rs. 63000 / Rs. 20]$	3150 shares

Calculation of cash to be paid:

Number of debentures 2000

Less: number of debentures to be converted into equity shares (600)

1400

Redemption value of 1400 debentures $(1400 \times Rs. 105)$ i.e. Rs. 147000.

Question 4

The Balance Sheet of Shyam Co. Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as at 31st March, 2023 shown **Long term borrowings with respect to** 12% Debentures of Rs. 100000

At the Annual General Meeting, it was resolved that to repay the debentures at a premium of 5%. Give the necessary journal entries for these transactions.

Journal Entries				
Particular	L.F.	Amount (Dr.)	Amount (Cr.)	
Profit and Loss A/c Dr. To Debenture Redemption Reserve (for DRR created $10\% \times 100000$)		10000	10000	
Debenture Redemption Reserve Investment A/c Dr. To Bank A/c (for DRR Investment created $15\% \times 100000$)		15000	15000	
12% Debentures A/c Dr. Premium Payable on Redemption A/c @ 5% Dr. To Debenture holders A/c (Amount payable to debentures holders)		100000 5000	105000	
Profit and loss A/c Dr. To Premium Payable on Redemption A/c (Premium payable on redemption of debentures charged to		5000	5000	

Profit & Loss A/c)			
Debenture Redemption Reserve A/c To General Reserve (for DRR transferred to general reserve)	Dr.	10000	10000
Bank A/c To Debenture Redemption Reserve Investment (for DRR Investment realised)	Dr.	15000	15000
Debenture holders A/c To Bank A/c (Amount paid to debenture holders on redemption)	Dr.	105000	105000